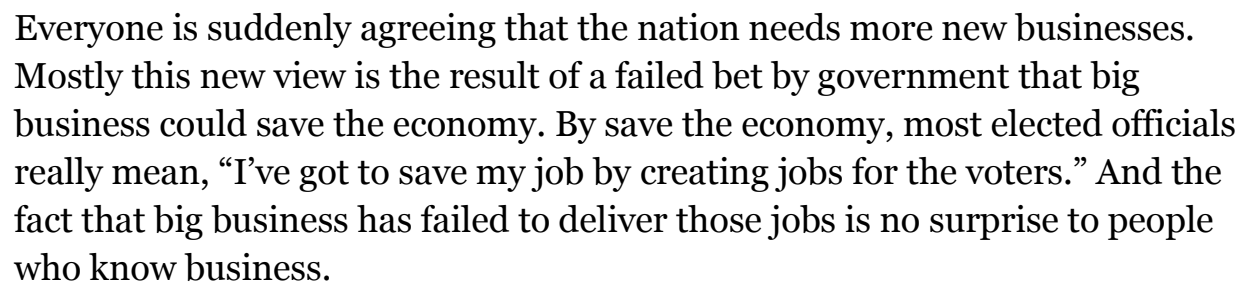


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<http://blogs.forbes.com/carlschramm/2011/01/19/the-messy-path-to-creating-jobs/>



Big businesses are concerned about productivity — making more goods with fewer people. The publicly owned auto companies, which were saved in part to keep unionized people employed, have fewer workers coming in the gates now than when the bailout began. Those who run big companies have every incentive to reduce employment and they are very good at it.

So from the president on down we now hear that new businesses are the key to job creation. This truth has long been evident to anyone willing to look at federal statistics. The data, frequently used in studies by the Kauffman Foundation, show that all net new job creation in America comes from companies less than five years old! And while entrepreneurs and the new companies they create aren't an economic silver bullet, recovery from recessions won't happen without them. In fact, many of America's largest and

most successful companies, including IBM, Target and Microsoft, were started during a recession or bear market.

One need not be an economist to see why this is so. When you start a business, you must hire people just to get the company going, a gain from zero to X-many jobs to begin with. You'll probably start with a minimal staff and then add more people to meet demand as sales take hold. And if your new company is one that not only takes hold but takes off, you may add dozens, hundreds or thousands of jobs.

Many small new businesses fail, but it takes legions of small failures to equal the losses from a single round of mass head-cutting at a large mature company. The fact is big, established companies tend to cut as many jobs as they create. So the new jobs have to come from somewhere, and where else but from new companies?

The better question is why policy makers haven't grasped this until recently. My answer is that policy making and government planning are usually done with a view to controlling events, and the "controller" mindset doesn't take easily to the world of start-ups. With myriad new firms always emerging, failing, or changing directions as they grow, this world appears highly unpredictable and, well, messy. But though it is unpredictable in its details — it's very hard to pick the winners from any batch of new firms — overall, the messiness works.

That is why my column, which debuts with this entry, is titled "Messy Capitalism." We should keep reminding ourselves that throughout American history, messy capitalism has always propelled economic growth, while periods of heavy-handed state intervention, such as the 1970s, have suppressed it.

With this in mind, what are some basic steps we can take to bring forth more job-creating entrepreneurs?

Four Must-Dos

First, we must be clear in our speaking and thinking. The word "entrepreneur" is used many times more often than it was just five years ago. And as with

other words, its meaning has become clouded by its popularity. We now hear nonprofit executives described as “social entrepreneurs,” and anyone who does the slightest thing new or different earns the “entrepreneurial” tag. Ontologically, there can be no such thing as “entrepreneurial bureaucrats,” yet books and articles are written about them.

Let’s not quibble over use of the word, but let us also not allow loose usage to muddle what we are after. If we want job creation in a growing economy, that benefit cannot be provided by people improving our bureaucracies. *Net new jobs are created only by entrepreneurs who start businesses that earn profits*. Other kinds of “entrepreneurs” may merit support for other reasons — but for jobs, we need more of the kind who generate earnings from which to hire.

Second, we have to get better attuned to where these entrepreneurs come from. Many people think of the typical entrepreneur as a youthful prodigy, a sort of modern-day Mozart at a computer keyboard who composes a billion-dollar business plan before age 25. Supposedly our university campuses are teeming with potential prodigies of this type, and, indeed, collegiate level training gets most of the nation’s resources devoted to preparing entrepreneurs.

But we may be barking up the wrong tree. The people who start our country’s fastest growing businesses do so at an average age of 40. Some never went to college, and top-tier entrepreneurs who have degrees also tend to have work experience — they learn about an industry before starting a firm in it. As for the personal qualities useful in building a company, any listing of them will show them to be qualities that are widely distributed through our society, not concentrated in young people at universities.

In short, the pool of potential entrepreneurs at any given time is much larger off campus than on. So when it comes to encouraging and preparing people to actually start businesses, we must think about how to re-target our efforts accordingly.

Third, this must include stepping up efforts to get the less-represented parts of our population into the mix. We need more minority entrepreneurs, more

entrepreneurs in regions and neighborhoods where firm formation rates are low, more women aiming to start high-growth firms, and so forth. Our goal should be to double the number of Americans who are serious about starting businesses, and that requires “democratizing” the process to involve the people who, together, make up a very large part of America.

Finally, returning to the universities, the teaching of entrepreneurship has to change. The current approach has multiple shortcomings. For instance, a great deal of course content consists of learning “about” entrepreneurship rather than how to do it: Activities such as reading case studies or listening to guest entrepreneurs tell their war stories don’t give students practical skills they can apply. Much of the how-to work is then focused on how to write a business plan and raise venture capital, which is bizarre given that (a) many successful entrepreneurs do neither, and (b) the business plan, despite its totemic status in academe, is far from the end of the entrepreneurial process and will probably change utterly during that process.

Other drawbacks abound. The result is that students learn various pieces of knowledge that may be useful somehow or other, but they never really and comprehensively learn how to start a company. If we are serious about wanting more new firms, that’s unacceptable and the entire learning model needs to be re-thought.

In a sense, we Americans risk being spoiled by our entrepreneurial successes of the past. For a variety of reasons, our economy “naturally” produces high rates of new firm formation, and there has long been a tendency to think it will naturally go on producing all the entrepreneurs we need. But now that we’ve decided we need more, we must find ways to get them without indulging in the heavy-handed types of policy intervention that would only kill the goose. The four steps outlined here are a place to start.